

## **AOL-Bebo Deal Shows Social Platforms' Value Over Social Sites**

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AOL's purchase of Bebo establishes a new, lower valuation figure for social sites and will set in motion other industry partnerships and acquisitions.

## NEWS ANALYSIS

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### Event

On 13 March 2008, AOL announced an agreement to acquire the social networking site Bebo for \$850 million in cash.

### Analysis

This acquisition shows that investments in the social networking space remain vibrant, despite indications of consumers' "social network fatigue." Formerly explosive growth rates have slowed and monetization remains a challenge. But to the extent a social site is a platform, it has value. Bebo is an "in-between" property: more platform than some, but not as much as others.

The acquisition shows that second-tier networking sites need to find synergy with complementary large players such as AOL that can combine social networking with instant messaging and advertising engines. AOL will need to execute rapidly and flawlessly to gain maximum value from this investment, given the popularity of Facebook, MySpace, LinkedIn and other competitors.

The purchase shows a "valuation gap" between Bebo and Facebook. Considering metrics such as monthly unique visitors and page views, Facebook's metrics range from three to 10 times larger than Bebo's. If Facebook were valued only in proportion to these metrics, it would have a value between \$2.5 billion and \$8 billion — far short of the \$15 billion established with Microsoft's November 2007 investment.

There may be several reasons for this valuation gap:

- Figures may be receding from November's high-water mark.
- There's a big difference between buying a small piece of a company vs. a large wholesale acquisition, which is a much greater risk.
- Facebook stands above the others in its platform-centric approach. Bebo is evolving in the platform direction, faster than MySpace and LinkedIn but not as fast as Facebook.
- Facebook's aggregation of users makes it more attractive to advertisers.

This deal adds a source of advertising inventory to AOL's Platform-A suite of online advertising products. Bebo has cultivated relationships with major media companies and has positioned itself as a media-oriented social network (in contrast to Facebook, which is more focused on applications and personal communication). This positioning will appeal to brand advertisers concerned about social media's advertising contexts.

## RECOMMENDATIONS

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- **Enterprise marketers and media agencies:** If you are considering investments in online advertising platforms, consider Platform-A, but demand more clarity from AOL about its possible separation from Time Warner. The development of next-generation advertising platforms (being pursued by Microsoft and Google) will require large capital investments. Consider long-term commitments to Platform-A in that light.
- **Second-tier social networking sites:** Bulk up by partnering with larger complementary players, but be prepared for values to drop as the sector matures.

- **Buyers of social networking sites:** Treat your new property as a highly perishable item that needs to evolve rapidly into a broad-scope social platform to remain competitive. Fast followers need to execute rapidly. Most cannot.

## RECOMMENDED READING

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- "Facebook and the Emerging Social Platform Wars" — Facebook has taken an early lead in a contest for social platform dominance. **By Ray Valdes**
- "LinkedIn Enters Increasingly Crowded Social Platform Arena" — LinkedIn is evolving from a social site to a social platform. **By Ray Valdes**

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